Agricultural Productivity in an Uncertain World

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Agricultural Productivity in an Uncertain World

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Outline

• Introduction

• Global Context for Agriculture

• New Zealand Context

• NZ Productivity Commission
Global context

- Agricultural markets in new phase
- Food product prices surged from late 2006
- Checked by GFC from mid-2008
- Recovery from late 2010, now above previous peak
- Meat & dairy firm, but sugar, cereals, oils and fats very strong
FAO Food Price Index
Food Commodity Price Indices
Global context

- Demand from emerging middle class; China, India, South America
- Europe, US, Japan sagging under debt load, dysfunctional governance, demographics
- FAO/OECD picking sustained high real prices
- Cereals, +20%
- Meats, +30% (decade over decade)
Global context

- Global agriculture output +1.7% pa (2010 – 20) vs 2.6% (2000 – 10)
- Lower productivity growth overall
- Prices high, volatile
- Output share from developing countries expanding
- Biofuels growing – by 2020, 13% of grains, 30% of sugar
Global context

• Weather variability = price variability
• Smaller stocks – public and private
• Agriculture markets more tightly linked to energy
• Non food use of agricultural output growing strongly
• Food demand becoming price inelastic as incomes rise
• Per capita incomes up 50% in key developing countries by 2020?
Global context

• Global shift from staple foods to processed and prepared, increased animal protein share

• Agricultural supply response muted?

• Resource pressures – land, water, energy
New Zealand context

- Sweet spot for NZ of late, good prospects
- China impact immense: +$2 billion dairy market
- Opportunities, but which business model for NZ?
- Scale?
- Constraints on growth?
  - Capital
  - Skills
  - Ecosystems
  - Innovation/Tech Transfer
  - Moving from products to services/IP
New Zealand context

Multi factor productivity growth since 1978

![Graph showing multi factor productivity growth since 1978. The x-axis represents the year to 31 March from 1978 to 2008, and the y-axis represents the multifactor productivity index (1978=100). The graph includes data for measured sector, agriculture, and food, beverage, and tobacco manufacturing.]
New Zealand context

• Why didn’t primary industries whither post 1984?
  – Accumulated technology, skills, capability
  – Reduced protection = lower costs
  – Thrive or die
  – Flexibility
  – Scale – vs other sectors
  – Competition forcing efficiency
  – Uruguay Round
New Zealand context

- **What’s needed for future success?**
  - Skills, including industry governance
  - Capital
  - Understanding new markets/customers
  - Understanding ecosystem pressures
  - Understanding local communities
  - Innovation
  - Resilience
The Commission
**Purpose**

NZPC Act (2010)

“The principal purpose of the Commission is to provide advice to the Government on improving productivity in a way that is directed to supporting the overall well-being of New Zealanders, having regard to a wide range of communities of interest and population groups in New Zealand Society.”
Form

- Independent Crown Entity
- Chair plus 2 or 3 Commissioners (all part time)
- Up to 20 staff (plus use of consultants)
- $5 million budget per year
  - Funded from existing budgets of other govt agencies
- Act passed December 2010
  - Supported by all parties except Greens
- Operational from 1 April 2011
Functions

• In-depth inquiries
  - Topics referred to us by Ministers

• Research into productivity-related issues

• Promoting public understanding of productivity
Our stand-out features

- Dedicated focus on productivity
- High-quality, evidence-based analysis
- Extensive engagement/submission process
- Independent
- Workable advice
- Focus on the overall wellbeing of New Zealanders
Inquiries

Housing Affordability Inquiry

International Freight Transport Services Inquiry
Inquiry process

- Minister(s) decide to initiate an inquiry
- Commission consulted on terms of reference
- Advertise inquiry, call for registrations of interest
- Issues paper … submissions
- Draft report … submissions and hearings
- Final report … recommendations to the Minister(s)
- Report tabled in Parliament
Conclusion

“Productivity isn’t everything. But in the long run, it is almost everything.”

Paul Krugman